

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0775-05
Bill No.: SCS for HS for HB 197
Subject: Economic Development; Taxation and Revenue.
Type: Original
Date: May 5, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$1,482,340) to \$3,517,660	\$5,359,902 to \$16,388,652	\$1,459,902 to \$12,488,652
Total Estimated Net Effect on General Revenue Fund *	(\$1,482,340) to \$3,517,660	\$5,359,902 to \$16,388,652	\$1,459,902 to \$12,488,652

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
None			
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

*** The fiscal impact of the tax credits could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government*	\$0	Unknown to (\$11,028,750)	Unknown to (\$11,028,750)

* The fiscal impact of the tax credits could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance (INS)** state they are unable to estimate the fiscal impact of adding additional enterprise and satellite zones. The proposal will result in an unknown decrease to General Revenue, as well as the County Foreign Insurance and County Stock Funds.

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development's authority to promulgate rules, regulations, and forms. SOS estimates the division could require approximately 168 new pages of regulations in the Code of State Regulations at a cost of \$27.00 per page, and 112 new pages in the Missouri Register at a cost of \$23.00 per page. Costs due to this proposal are estimated to be \$6,888, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely

ASSUMPTION (continued)

on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Office of Administration - Budget and Planning (BAP)** had the following input regarding the substitute;

Section 32.115.2 deletes language in state statute, which would repeal the Neighborhood Assistance Act. Currently this program has a six million dollar limit per fiscal year for such tax credit allocation. This will save General Revenue starting in Fiscal Year 2006.

Section 100.710 lowers the required investment that a business must make and the number of new jobs that must be created in order to be considered an eligible industry under the BUILD program. It is unknown the additional number of businesses which would participate in this program.

Section 100.840.1 deletes the current cumulative cap limit of seventy-five million dollars for the BUILD program, which according to the Department of Economic Development has been exhausted. Section 100.850.5 establishes an annual limit of eleven million dollars for the BUILD program. This will have a negative impact on General Revenue.

Section 135.155 phases out the New/Expanding Business Facility tax credit program. This will save General Revenue after currently approved tax credits are redeemed.

Sections 135.207.1 allows the cities of Springfield, Sugar Creek, and St. Joseph the opportunity to create a satellite enterprise zone within their boundaries. This may decrease General Revenue.

Section 135.208 through Section 135.212 authorizes an enterprise zone in the cities of Bourbon, Raytown, Richland, and Columbia. This may decrease General Revenue.

Section 135.800 establishes the "Sustainable Neighborhoods and Communities Tax Credit Act".

ASSUMPTION (continued)

Section 135.815.3 establishes an aggregate annual limit of fifteen million dollars for credits issued pursuant to sections 135.800 to 135.820. This will decrease General Revenue up to fifteen million dollars annually.

Section 135.827. 2 & 4 establishes a tax credit with an annual cap of five million dollars for any taxpayer who makes a contribution to a nonprofit educational assistance organization. This will decrease General Revenue up to five million dollars annually.

Section 135.875 establishes the "Competitive Communities Tax Credit Act". Section 135.890.4 establishes an aggregate annual amount of five million dollars for credits issued pursuant to sections 135.875 to 135.895. This will decrease General Revenue up to five million dollars annually.

Section C, which is effective January 01, 2006, repeals the following sections: 32.120, 135.460, 620.1100, and 620.1103; and section 32.125 as enacted by HS SB 374 by the 88th General Assembly. This will save General Revenue. BAP defers to the Department of Economic Development for specific estimates.

Effective upon the passage and approval of this bill, sections 620.1400 through 620.1460 and sections 135.535, 135.545, 135.750 and 135.766 are also repealed. This will save General Revenue. BAP defers to the Department of Economic Development for specific estimates.

Officials from the **Department of Economic Development (DED)** state the proposal makes changes to many programs within their agency as well as starts a new scholarship charity program as well as repeals other programs.

DED assumes the following fiscal impact regarding all of the various changes in the legislation:

Program	FY 2004	FY 2005	FY 2006
Affordable Housing Assistance Program	\$0	\$0	\$0
Repeal of Neighborhood Assistance Program	\$0	\$3,000,000	\$10,000,000
Repeal of Youth Opportunities Program	\$0	\$2,000,000	\$4,500,000

ASSUMPTION (continued)

<u>Program</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Sustainable Neighborhoods & Communities	\$0	\$0	(\$14,250,000)
Repeal of Rebuilding Communities Program	\$2,000,000	\$2,500,000	\$3,500,000
Repeal of DTC	\$750,000	\$1,000,000	\$2,000,000
Competitive Communities	\$0	(\$2,000,000)	(\$4,750,000)
BFC sunset	\$600,000	\$1,200,000	\$1,800,000
Repeal Transportation	\$0	\$4,000,000	\$5,000,000
Repeal Film	\$350,000	\$700,000	\$700,000
Repeal USDA.SBA	\$60,000	\$70,000	\$80,000
Mo Technology Corp.	(\$200,000)	\$0	\$0
Repeal SDA	\$5,000	\$5,000	\$5,000
Repeal Mature Worker	\$5,000	\$5,000	\$5,000
Satellite Zones (3 @ \$60,000)	\$0	(\$180,000)	(\$180,000)
Enterprise Zones (2 @ \$122,849)	\$0	(\$245,698)	(\$245,698)
Enterprise Zones (2 @ \$862,200)	\$0	(\$1,724,400)	(\$1,724,400)
Scholarship Charity Tax	(\$5,071,995)	(\$5,078,231)	(\$5,080,256)
TOTAL SAVINGS / (COSTS)	<u>(\$1,501,995)</u>	<u>\$5,251,671</u>	<u>\$1,359,646</u>

ASSUMPTION (continued)

DED assumes the need for an additional FTE for the new scholarship charity tax credit program. DED assumes the need for a Economic Development Incentive Coordinator (at \$43,308 annually) plus relative fringe benefits and other expenses. DED assumes a cost for the FTE of roughly \$80,000 per year.

Oversight assumes DED would be able to administer the program with FTE that may be freed up with the deletion of several other programs and have therefore not allowed DED the FTE in the fiscal note.

Officials from the **Department of Elementary and Secondary Education (DESE)** state this proposal authorizes a 50% state income tax credit for contributions to nonprofit educational assistance organizations. The cumulative amount of tax credits which may be claimed by all taxpayers contributing to a nonprofit educational assistance organization in any one fiscal year shall not exceed \$5 million. The cumulative amount of tax credits shall be apportioned equally among all qualified nonprofit educational assistance organizations.

DESE states that the Department of Revenue will likely experience an administrative burden, however, there would be no impact to DESE. Tax credits will reduce income tax receipts flowing to the General Revenue fund. More tax credits mean less General Revenue available statewide for state use including education and fully funding the foundation formula.

DESE assumes a reduction in general revenue of \$5 million per year. DESE also states it is unknown how any agency would be able to determine the savings attributable to a drop in average daily attendance that is addressed in the substitute.

In response to similar legislation from this year regarding the new scholarship charity tax credit program, officials from the **Department of Revenue (DOR)** stated the Division of Taxation will need to modify the MINITS, COINS, Speedup and PTC to allow for the credits. It is estimated that 1,384 hours of programming will be needed at a cost of \$46,170. Personal Tax will need one Tax Processing Tech I (at \$21,192 annually) for every 10,000 credit claims received.

DOR assumed programming cost of \$46,170 to prepare for the new credit as well as costs of roughly \$35,000 for the new FTE anticipated by DOR.

Oversight assumes DOR would incur the programming expenses as estimated; however, Oversight assumes DOR could administer the provisions of this proposal with existing resources

or request

ASSUMPTION (continued)

additional staff through the budget process if the volume of tax credits warrant. Oversight has also utilized DOR's estimated programming charges for the implementation of the other new tax credit programs of \$46,170, therefore, Oversight has utilized a total of \$92,340 of programming expenses.

Officials from the **Department of Agriculture** did not respond to our request for fiscal impact.

Scholarship Charities Tax Credit Program

In response to similar legislation from this year, officials from the **School District of Kansas City, Missouri** stated the proposed changes to RSMo, 163.036 will result in a loss to revenue to them. The district states that if they cannot receive pay based on the highest eligible pupil count over the prior two years or the current year, it losses revenue.

In response to similar legislation from this year, officials from the **St. Louis Public Schools** assumed the proposal would not fiscally impact their agency.

Oversight assumes that since the effective date of the program is for tax years beginning on or after January 1, 2003, that taxpayers would begin utilizing the credits against their returns filed in calendar year 2004, or FY 2004. This would result in a possible loss to general revenue of up to \$5 million in FY 2004. Oversight further assumes that scholarship charities would not utilize the contributions by issuing scholarships until the school year 2004 - 2005. Therefore, there would not be a resulting savings to the General Revenue Fund for retained educational costs until FY 2005. Oversight assumes the tax credit and the matching scholarship award would occur together after FY 2004.

Assuming that the \$10 million in contributions (\$5 million in tax credits / 50% credit rate) is divided by the maximum scholarship available (\$3,400) to a qualified student, an estimated 2,941 students would be able to receive the scholarship. According to information on the Department of Elementary and Secondary's web page, the state estimates spending roughly \$3,750 per student in the 2002 - 2003 school year for basic state aid, free and reduced lunch and for transportation costs for students in the Kansas City and the St. Louis City school districts. If these same 2,941 students were to result in a savings to the state for not paying the Kansas City and St. Louis City school

districts these amounts, the state could realize a savings of up to \$11,028,750 (\$3,750 x 2,941 students). **Oversight's** calculations are based upon the anticipated state funding level for basic state aid, free and reduced

ASSUMPTION (continued)

lunch and for transportation costs in the 2002 - 2003 school year per student in Kansas City and St. Louis school districts. The maximum potential savings of \$11,028,750 assumes that all of the students who receive a scholarship through this program had been enrolled in the Kansas City and St. Louis public school system, and now will be attending a private institution.

The state, however, would not realize a savings or would realize a reduced savings in certain circumstances, such as children who are home-schooled, or children who are currently attending private schools and now, through this program, are able to attend other private institutions. The state had not paid \$3,750 for these children in the previous fiscal year, therefore the savings would be reduced. There is not information available to determine how many of the scholarships would be utilized by the children who are receiving more or less than the average amount spent per pupil by the state.

Oversight has ranged the fiscal impact of the scholarship (both the tax credit and the savings to the state) from \$0 to the maximum amount calculated per year.

Oversight notes that this fiscal note does not include shifting between school districts from Proposition C funds, Fair Share funds and Free Textbook funds which would result in a zero net effect to the local school districts.

Oversight assumes that this proposal, unlike 0649-05, does not contain subsection 135.827.8, which stated that any savings attributable to the drop in average daily attendance attributable to the tax credit versus the loss of revenue resulting from the tax credits claimed, shall be distributed to the local school districts in the same year. Therefore, Oversight assumes the state would not distribute any net savings resulting from this proposal to the local school districts.

Repeal of USDA.SBA Tax Credit Program

Oversight assumes the enabling legislation (HB 139) for this tax credit program was passed in 1999. In the 2000 legislative session, SB 894 was passed that repealed the program, however, this entire bill was declared unconstitutional in 2002. Therefore, the tax credit program is

effectively, still on the Missouri Statutes. This proposal attempts to repeal the program once again.

According to the Small Business Administration, roughly \$3.1 million in loan fees were paid by Missourians in the fiscal year ended September 30, 2002. According to the United States Department

ASSUMPTION (continued)

of Agriculture (USDA), roughly between \$150,000 and \$300,000 in Rural Development loan guarantee fees are collected in a given year. Also according to the USDA, roughly between \$400,000 and \$500,000 in Farm Service Agencies loan guarantee fees are collected in a given year.

With this program, tax credits for these fees could be applied against Missouri taxes due, however, not all payees of these fees will have sufficient tax liability to be able to offset with the tax credit. Since this credit cannot be sold, carried forward or carried back, the amount of tax credits that will be able to be used against Missouri taxes will be somewhat limited. Therefore, **Oversight** assumes that without this legislation (repeal of the Small Business Guarantee Fee Tax Credit) an unknown amount of tax credits, exceeding \$100,000, would be utilized against Missouri income taxes. Therefore, Oversight assumes this repeal will result in a savings to the General Revenue fund of an unknown amount, over \$100,000 in each of the three years of the fiscal note.

For all changes to programs in the proposal other than the repeal of the USDA.SBA tax credit and the Scholarship Charities tax credit program, **Oversight** has relied upon the assumptions of the Department of Economic Development for the fiscal impact.

This proposal could increase or decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Savings</u> - Education costs the state would not pay for students receiving the scholarship set up through this proposal	\$0	\$0 to \$11,028,750	\$0 to \$11,028,750
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<u>Savings</u> - Repeal NAP	\$0	\$3,000,000	\$10,000,000
<u>Savings</u> - Repeal YOP	\$0	\$2,000,000	\$4,500,000
<u>Savings</u> - Repeal Building	\$2,000,000	\$2,500,000	\$3,500,000
<u>Savings</u> - Repeal DTC	\$750,000	\$1,000,000	\$2,000,000
<u>Savings</u> - BFC sunset	\$600,000	\$1,200,000	\$1,800,000
<u>Savings</u> - Repeal Transportation	\$0	\$4,000,000	\$5,000,000
<u>Savings</u> - Repeal Film	\$350,000	\$700,000	\$700,000
<u>Savings</u> - Repeal USDA.SBA	Unknown, exceeding \$100,000	Unknown, exceeding \$100,000	Unknown, exceeding \$100,000
<u>Savings</u> - Repeal SDA	\$5,000	\$5,000	\$5,000
<u>Savings</u> - Repeal Mature Worker	\$5,000	\$5,000	\$5,000
<u>Cost</u> - Department of Revenue Programming costs	(\$92,340)	\$0	\$0
<u>Cost</u> - DED - MO Tech. Corp	(\$200,000)	\$0	\$0
<u>Loss</u> - Tax Credit for donations to scholarship charities *	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Loss</u> - Sustainable Neighborhoods and Communities	\$0	\$0	(\$14,250,000)
<u>Loss</u> - Competitive Communities	\$0	(\$2,000,000)	(\$4,750,000)
<u>Loss</u> - Satellite Zone in Springfield	\$0	(\$60,000)	(\$60,000)
<u>Loss</u> - Satellite Zone in Sugar Creek	\$0	(\$60,000)	(\$60,000)

<u>Loss</u> - Satellite Zone in St. Joseph	\$0	(\$60,000)	(\$60,000)
<u>Loss</u> - Enterprise Zone in Bourbon	\$0	(\$122,849)	(\$122,849)
<u>Loss</u> - Enterprise Zone in Pulaski Co.	\$0	(\$122,849)	(\$122,849)
<u>Loss</u> - Enterprise Zone in Raytown	\$0	(\$862,200)	(\$862,200)
<u>Loss</u> - Enterprise Zone in Columbia	<u>\$0</u>	<u>(\$862,200)</u>	<u>(\$862,200)</u>

ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(\$1,482,340) <u>TO \$3,517,660</u>	\$5,359,902 TO <u>\$16,388,652</u>	\$1,459,902 TO <u>\$12,488,652</u>
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*** For FY 2004, a loss to the General Revenue Fund from the Scholarship Charity Tax Credit Program of up to \$5 million could result if taxpayers take advantage of the new program by making donations from August 28, 2003 through December 31, 2003.**

**** The net effect to the General Revenue Fund from the Scholarship Charity Tax Credit Program assumes the maximum amount of tax credits are being utilized by taxpayers and that the average anticipated savings per pupil are being realized by the state.**

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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**KANSAS CITY AND ST. LOUIS
LOCAL SCHOOL DISTRICTS**

<u>Savings</u> - of educational expenses of not educating students who receive scholarships to attend other schools	\$0	\$0 to Unknown	\$0 to Unknown
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<u>Loss</u> - of state funding for students who receive scholarships from program to attend other schools	<u>\$0</u>	<u>\$0 to (\$11,028,750)</u>	<u>\$0 to (\$11,028,750)</u>
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**ESTIMATED NET EFFECT TO
KANSAS CITY AND ST. LOUIS
LOCAL SCHOOL DISTRICTS**

	UNKNOWN TO	UNKNOWN TO
<u>\$0</u>	<u>(\$11,028,750)</u>	<u>(\$11,028,750)</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the new, repealed or changed tax credit programs would be impacted by this proposal.

DESCRIPTION

This proposal makes numerous changes, additions and deletions to existing economic development tax credit programs.

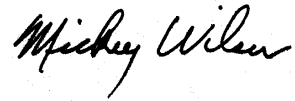
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance
Office of the Secretary of State
Department of Elementary and Secondary Education

NOT RESPONDING: Department of Agriculture

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A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

MICKEY WILSON, CPA
DIRECTOR
MAY 5, 2003